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Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
IO-13 PA-01 L-03 H-01 NEA-11 /118 W
----------048366 140630Z /14
P 140520Z JUN 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 9512
INFO AMEMBASSY MANILA PRIORITY
AMCONSUL SURABAYA

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FOR NAC AGENCIES
MANILA FOR USADB

E.O. 11652: NA
TAGS: EAID, EFIN, ID
SUBJECT: PROPOSED LOAN FOR SECOND POWER DISTRIBUTION PROJECT-
INDONESIA

REF: MANILA 09361

1. MISSION HAS NO INFORMATION THAT WOULD FORM BASIS OF UN-FAVORABLE NAC CONSIDERATION OF THIS PROJECT. REFTEL AND RURAL ELECTRIFICATION PROJECT ANALYSIS PERFORMED BY USAID CONFIRM EX-TREMELY LOW LEVEL OF ELECTRIC POWER GENERATION, DISTRIBUTION AND CONSUMPTION IN INDONESIA COMPARED WITH OTHER DEVELOPING COUNTRIES. LARGE INVESTMENTS IN ELECTRICAL POWER GENERATION AND DISTRIBUTION ARE INDICATED AS A HIGH DEVELOPMENT PRIORITY FOR THE FORESEEABLE FUTURE. REGRET THAT ADB DOC R42-78 NOT YET RECEIVED BY MISSION, THEREFORE, SPECIFIC COMMENTS WHICH FOLLOW ARE BASED ONLY ON REFTEL.

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2. DESCRIPTION OF PROJECT INDICATES THAT PROJECT IS ES-SENTIALLY A REHABILITATION AND EXPANSION OF MAJOR POWER DISTRIBUTION SYSTEM. THE ESTIMATED COST PER BENEFICIARY CUSTOMER (I.E., PER HOUSEHOLD) IS $833. THIS UNIT COST IS RELATIVELY HIGH, IF COMPARED WITH USAID RURAL ELECTRIFICATION PROJECT WHERE COST PER BENEFICIARY CUSTOMER IS ESTIMATED AT $366 (PER HOUSEHOLD) AND $61 PER BENEFICIARY (RESIDENT OF

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CONNECTED HOUSEHOLD). MISSION ASSUMES THAT ADB AND USAID PROJECTS ARE SUBSTANTIALLY DIFFERENT IN EMPHASIS, BUT BELIEVE THIS TYPE OF COMPARISON IS RELEVANT. IN FURTHER EXPANSION OF ELECTRIFICATION EFFORTS GREATER EMPHASIS IS NEEDED ON REACHING MORE BENEFICIARIES AT LOWER UNIT COSTS.

3. ADB PROJECT IS DESIGNED TO EXPAND ACCESS TO ELECTRICITY FROM 6 PERCENT TO 11 PERCENT OF THE POPULATION IN TARGET AREA OF WEST JAVA. IN ADDITION, IT IS STATED THAT CONNECTION CHARGE HAS BEEN REDUCED FROM $300 PER KW TO $180 PER KW. WITH CONNECTION CHARGES OF THIS MAGNITUDE AND THE INTENTION OF SERVING SUCH A SMALL PORTION OF THE TOTAL POPULATION IT SEEMS OBVIOUS THAT THE SYSTEM WILL PRIMARILY DIRECTLY BENEFIT THE RELATIVELY WELL OFF IN THE PROPOSED SERVICE AREA. GIVEN THE OVERALL NEED FOR EFFICIENT POWER DISTRIBUTION, THE PROJECT PROBABLY WILL HAVE THE ANTICIPATED ECONOMIC RETURNS. HOWEVER, IT WOULD SEEM ADVISABLE TO TAKE STEPS TO MAXIMIZE THE POTENTIAL PRODUCTIVE USES AND EMPLOYMENT GENERATING ASPECTS WHICH WOULD BENEFIT A GREATER PROPORTION OF THE TOTAL POPULATION OF THE SERVICE AREA. IF THERE IS AN INTEREST IN MAKING ELECTRICITY AVAILABLE TO THE LOWER INCOME POPULATION, IT WILL BE NECESSARY TO FURTHER REDUCE CONNECTION CHARGES OR INITIATE LONGER TERM FINANCING OF THE CONNECTION CHARGE.

4. IN PARAS 3 AND 6 REFTEL THERE IS REFERENCE TO IMPROVED
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DISTRIBUTION EFFICIENCY OF PLN. WHILE IT IS POSSIBLE THAT EFFICIENCY HAS IMPROVED, IT IS NOT CLEAR HOW THE DETAILED AND NECESSARILY PRECISE ESTIMATES OF THE POWER LOSS FACTORS CAN BE OBTAINED WHEN A SIGNIFICANT PORTION OF THE DOMESTIC LOAD CONSISTS OF NON-METERED CUSTOMERS. PERHAPS THERE ARE DETAILS ON THIS IN THE FULL PROJECT DOCUMENTATION.

5. WE REALIZE THAT THE PROJECT IS NOT DESIGNED AS A RURAL ELECTRIFICATION PROJECT AND SHOULD NOT BE JUDGED BY THE SAME CRITERIA BUT AS MENTIONED IN PARA 9 REFTEL THERE SHOULD BE A MORE COMPLETE CONSIDERATION OF THE ECONOMIC AND SOCIAL BENEFITS OF THE PROPOSED PROJECT. WE STRONGLY SUPPORT THE CONCLUSIONS IN PARA 9 REFTEL. TAKING INTO ACCOUNT THE LOW LEVEL OF ELECTRIC POWER AVAILABILITY IN INDONESIA AND THE LARGE NEED FOR INVESTMENT IN THE POWER SECTOR, WE WOULD RECOMMEND NAC APPROVAL OF THIS PROJECT WITH ADB ENCOURAGED TO CONSIDER COMMENTS RAISED IN THIS CABLE. DECONTROL FOLLOWING 6/15/79.
MASTERS

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NNN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, LOANS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 14 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART07932
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780248-0016
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780661/aaaacauq.tel
Line Count: 113
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 08a2bc89-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 MANILA 9361
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2361914
Secure: OPEN
Status: NATIVE
Subject: PROPOSED LOAN FOR SECOND POWER DISTRIBUTION PROJECT- INDONESIA
TAGS: EAID, EFIN, ID, ADB
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/08a2bc89-c288-dd11-92da-001cc4696bcc
Review Markings:
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